

## TEACHERS' RETIREMENT BOARD

### INVESTMENT COMMITTEE

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SUBJECT: Proposed 2000/01 Investment Branch Objectives

ITEM NUMBER: 5

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: July 12, 2000

INFORMATION: \_\_\_\_\_

PRESENTER(S): Patrick Mitchell

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### EXECUTIVE SUMMARY

One of the objectives contained in the CalSTRS Investment Management Plan is to conduct an annual planning session. As part of the annual planning session the business plans for the Investment Branch have been included as agenda item four. The proposed Investment Branch objectives have been included as Attachment 1. The proposed objectives emanate from the business plans provide earlier.

The 1999/00 Investment Branch objectives concentrated on (1) implementation of program modifications as approved by the Investment Committee, (2) enhancement of the risk control process both for the individual and total investment portfolio basis, and (3) concentration on quality control for internally and externally managed programs.

The 2000/01 Investment Branch objectives highlight (1) improved or more efficient methods of operation, (2) enhancements to the reporting procedures, and (3) valued added options to existing public market portfolios.

The proposed objectives can be deleted, modified, rearranged, or enhanced by the Investment Committee. Additional objectives may be added, if desired. After the Investment Branch objectives are finalized, it is anticipated that status reports will be provided in November, February and May to document the progress achieved.

2000 – 01 INVESTMENT OBJECTIVES  
TIMELINE BY DIVISION

Attachment 1  
Investment Committee – Item 5  
July 12, 2000

<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
ALTERNATIVE INVESTMENTS	Review and evaluate the due diligence process for limited partnerships to optimize the dual role of staff and the consultant.		
	Review and recommend on the appropriateness of creating a limit on the annual allocation of commitments for a single vintage year relative to total alternative investment portfolio.		
	Explore, evaluate, and report on the correlation, if any, of paying higher management fees and carried interest to General Partners and receiving superior investment performance.		
	Explore, evaluate, and report on the feasibility and potential benefit of including direct investments in the Alternative Investment portfolio.		
CORPORATE GOVERNANCE	Will be determined at the September 2000 Subcommittee on Corporate Governance		
CREDIT ENHANCEMENT	Complete a study of the feasibility of expanding the credit enhancement program to the 48 continental states, reporting the findings to the Investment Committee.		
	Report on the Credit Enhancement Program including the types and volume of transactions in municipal finance, industrial development, and housing finance projects.		
	Expand the underwriting of credit enhancement transactions that support California K – 12 Schools and California Community Colleges.		
	Implement the credit enhancement strategies supporting California multifamily housing projects by utilizing a broader range of financial institutions.		
CURRENCY HEDGING	Explore, evaluate and present a report on alternatives for the Investment Committee to consider in developing the System's view regarding currency management. Issues such as currency management objectives, risk tolerance and implementation methodologies should be addressed.		
	Explore additional currency risk management strategies, such as the use of currency overlay managers and currency options, to increase the efficiency of the Currency Hedging Program.		

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<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
EXTERNAL EQUITY	Implement the new Benchmarks as adopted by the Investment Committee.		
	Complete the selection and contracting processes for the indexed domestic, international and emerging markets managers.		
	Prepare a report on the implementation results for the actively managed segment of the domestic and international equity portfolios.		
	Explore, evaluate and present a report on the appropriate method of selecting and/or approving allowable emerging market countries to be included in the active or passive emerging market portfolios.		
INTERNAL EQUITY	Present a report to the Investment Committee that reviews the development of the Cash Equitization program.		
	Present a report that reviews and discusses the key issues associated in bringing a portion of the MSCI EAFE indexed portfolio under internal management.		
	The use of options can create a wide variety of risk and return profiles for the CalSTRS' investment portfolio. Present a report reviewing the use of equity options.		
FIXED INCOME LONG TERM	Continue to manage the domestic core Fixed Income Portfolios in such a manner as to consistently exceed the total return of the performance benchmark, while monitoring the deviation from the major risk characteristics of the performance benchmark.		
	Prepare, release, and evaluate a Request for Proposal (RFP) for external active High Yield Bond managers		
FIXED INCOME SHORT TERM	Continue to manage the Short-Term Fixed Income Portfolios in such a manner as to meet the investment objectives: a) to seek the preservation of capital (safety), b) to provide liquidity and, c) to maximize current income while evaluating the inclusion of new investment instruments, as appropriate.		

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DIVISION	DESCRIPTION	MONTH	STATUS
HOME LOAN	Report on the continued implementation of the enhancements to the Home Loan Program, as described within this Business Plan, highlighting the progress achieved in developing exit strategies.		
	Explore additional program enhancements, concentrating on affordability, recruitment and retention issues.		
INVESTMENT OPERATIONS	Participate in the planning and implementation process as approved for new or modified investment programs to minimize the disruptions to existing functions, products and programs.		
	Utilize technology to enhance or improve the investment processes.		
	Evaluate enhancements to the real estate cash management program concentrating on the changes caused by the increase in geographic diversification and number of properties serviced.		
	Review and recommend changes to the current repatriation of foreign currency requirements.		
REAL ESTATE	Present an analysis on joint venture structure and applicability for implementation into low, moderate, and high-risk real estate.		
	Complete a review of the appropriate property type diversification targets making recommendations to policy including the appropriate method to address the retail property type.		
	Review and present a report on the advantages and disadvantages of holding legal title to CalSTRS properties.		
	Provide a report on the implementation of urban investing considering the presentations and approvals completed in November 1999 and March 2000.		
SECURITIES LENDING	Report on the progress achieved in implementing the Securities Lending Program Business Plan, highlighting the structural changes in the program within the three categories: <ul style="list-style-type: none"> <li>• Agent Lending/Agent Cash Collateral Management</li> <li>• Agent Lending/CalSTRS Cash Collateral Management</li> <li>• CalSTRS (Principal) Lending/CalSTRS Cash Collateral Management.</li> </ul>		

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DIVISION	DESCRIPTION	MONTH	STATUS
SOFT DOLLAR	Prepare an annual report to the Investment Committee including reconciliation or matching totals and verifying balances between CalSTRS, the manager and the broker.		
	Implement a process to “recapture” soft dollar balances as appropriate to reduce the risk associated with concentration of activity with a small number of brokers.		
GENERAL	Complete an asset allocation review as required by the Investment Management Plan.		